COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0619-05
Bill No.: Truly Agreed To and Finally Passed SS for HB 253
Subject: Business and Commerce; Taxation and Revenue - Income
Type: Original
Date: June 24, 2013

Bill Summary: This proposal would change multiple provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue *	More than $127,600,000	$32,255,305 to Possibly $232,255,305 with passage of federal Marketplace Fairness Act	$32,191,741 or ($48,655,259) to Possibly $232,191,741 or $151,344,741 with passage of federal Marketplace Fairness Act
Total Estimated Net Effect on General Revenue Fund *	**More than $127,600,000**	**$32,255,305 to Possibly $232,255,305 with passage of federal Marketplace Fairness Act**	**$32,191,741 or ($48,655,259) to Possibly $232,191,741 or $151,344,741) with passage of federal Marketplace Fairness Act**

*If fully implemented, step 10 fiscal impact ranges from ($539,128,000) to (possibly more than $339,128,000) with passage of federal Marketplace Fairness Act.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 42 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Conservation Commission	More than $5,300,000	More than $6,500,000	More than $6,500,000
Parks, and Soil and Water	More than $4,250,000	More than $5,200,000	More than $5,200,000
School District Trust	More than $42,500,000	More than $51,100,000	More than $51,100,000
Total Estimated Net Effect on Other State Funds	**More than $52,050,000**	**More than $62,800,000**	**More than $62,800,000**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	3 FTE	4 FTE	4 FTE
Total Estimated Net Effect on FTE	**3 FTE**	**4 FTE**	**4 FTE**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	**More than $162,000,000 to (Unknown)**	**More than $194,500,000 to (Unknown)**	**More than $194,500,000 to (Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Section 32.070, etc., RSMo. - Streamlined Sales Tax:

Officials from the **Department of Revenue (DOR)** assume this section and related sections would implement the Streamlined Sales and Use Tax Agreement Act in Missouri. The Director of the Department of Revenue (Director) would enter into the streamlined sales and use tax agreement (SSUTA) with one or more states to simplify and modernize sales and use tax administration.

The Director would work with other member states to establish standards for service providers and multistate sellers. The state would have three delegates to the governing authority - one appointed by the governor, one a member of the general assembly, and the Director or designee as the third.

Fiscal impact

DOR officials stated that once fully implemented, the Streamlined Sales and Use Tax Agreement should increase sales tax collections and Total State Revenue by approximately $5 million in its first year and $10 million each subsequent year thereafter.

ASSUMPTION (continued)

IT impact

Oversight notes the Department of Revenue response to this proposal did not separately identify the IT cost of these provisions. In response to similar language in HB 500, LR 1114-01, DOR officials assumed that Department and ITSD-DOR would need to make programming changes to various tax systems, and provided an estimate of the IT cost to implement the proposal of $109,066 based on 4,032 hours of programming to make changes to DOR systems.

Administrative impact

Oversight notes the Department of Revenue response to this proposal did not separately identify the administrative cost in terms of personnel, equipment, and expense. In response to similar language in HB 500, LR 1114-01, DOR officials assumed that two additional Revenue Processing Technicians (Range 10, Step L) staff for Excise Tax related to examining refund claims which would need to be reviewed individually. In addition, the response indicated that the Department did not envision an FTE impact for the Sales Tax area, but rule writing would create a significant impact for which DOR would need additional managerial assistance, and included one additional Management Analyst Specialist I (Range 23, Step Q).

The DOR request, including three additional staff and related benefits, equipment, and expense totaled $136,863 for FY 2014, $145,786 for FY 2015, and $147,293 for FY 2016.

Oversight assumes implementing the Streamlined Sales Tax program would be accomplished as part of an ongoing DOR update process and for fiscal note purposes only, will indicate a cost to the General Revenue Fund in excess of $100,000 for FY 2015 and FY 2016. That fiscal impact is intended to include the DOR cost for updating procedures, any additional staffing that would be needed, and the programming that would be required for changes to various DOR systems. Oversight assumes that additional revenues would exceed additional costs by more than $100,000 per year for the General Revenue Fund.

Although officials from the **Office of Administration - Division of Budget and Planning (BAP)** did not respond to our request for information, BAP officials assumed similar language in the Truly Agreed To and Finally Passed HCS for SS#2 for SCS for SB Nos. 26, 11 & 31 (LR 0363-11) would not result in additional costs or savings to their organization. BAP officials noted the proposal would require the adoption and implementation of the Streamlined Sales Tax Agreement; the proposal would become effective 1 January 2015.

ASSUMPTION (continued)

Two studies of the state and local revenues that Missouri might gain from collecting sales tax on e-commerce provided estimates of $108 million (Eisanach & Litan, Feb. 2010) and $210 million (Bruce, Fox, & Luna, April 2009). Both studies are limited to the gains from e-commerce, and do not attempt to estimate other remote sales.

BAP officials noted that remote sellers would be able to remit sales tax under this agreement and estimated that this proposal would generate at least $10 million in Total State Revenues annually, of which $7 million would be due to the General Revenue Fund. However, the full amount may not be collected during the first year, due to the administrative processes of becoming a full member state of the SSUTA.

Officials from **St. Louis County** assume the intent of this bill would be keeping revenues at the current level. If the implementation actually generates those results then there would be no change in revenues.

St. Louis County officials assume there would be minimal fiscal impact to their organization; however, there would be an increase in costs for collection fees paid - from the current 1% to possibly as much as 5%. Currently, the 1% collection charge amounts to $3 million per year; and a 5% charge would increase that cost to $15 million per year.

Finally, St. Louis County officials stated creating additional sales tax exemptions would create revenue losses, the amount of which is indeterminable.

Officials from the **City of Kansas City** assume enactment of the Streamlined Sales Tax provisions in this bill would likely increase Kansas City's sales tax revenues through merchants' collection of sales tax on online and mail order purchases made by city residents. Kansas City is unable to estimate the amount of additional revenue at this time.

ASSUMPTION (continued)

The Bruce, Fox, and Luna report suggests that approximately 25% of sales taxes due on e-commerce are uncollected, and that sales tax collections on e-commerce were $26.1 billion for the year 2010. This rough estimate of the uncollected sales tax would indicate that $8.7 billion was uncollected for the United States. If 1.8% of the $8.7 billion was due the state of Missouri, the additional revenue would amount to $156.6 million. The Eisenach and Litan report suggests only $3.8 billion in uncollected sales tax on e-commerce; 1.8% of that amount attributable to Missouri would be $70.2 million.

Oversight has reviewed the studies cited by BAP and we noted there are significant differences between the two studies in the methodology used to estimate the level of internet and other remote sales, the proportion of remote sales which would be taxable, and the current level of compliance with existing tax provisions.

Information reported by the United States Census Bureau indicates that online retail sales grew at an average rate of 20% per year for the years 2000 to 2007, with lower growth rates for 2007 to 2009. A report by marketing and information technology consultants Forrester Research projected a 10% annual growth rate for the years 2009 through 2015, with online sales accounting for 11% of total retail sales (excluding groceries) by 2015.

Oversight was provided an estimate of Streamlined Sales Tax Program revenue by officials from the Streamlined Sales Tax Governing Board. That estimate was based on comparing population and per capita income information for Missouri with the same information for states currently participating in the Streamlined Sales Tax program. Based on those calculations, Streamlined Sales Tax Governing Board officials estimated that those Missouri state funds which receive sales tax revenues would collect an additional $13.7 million in the first full year of operation.

Streamlined Sales Tax Governing Board officials stated that the program is currently voluntary, and the member states have agreed to simplify their sales tax programs and contract with third-party transaction processors who collect and remit sales taxes to the member states. Participating multistate retailers agree to collect and remit sales taxes to member states, typically in exchange for an amnesty on prior uncollected sales and use taxes.

Oversight assumes the Governing Board estimate is the most reasonable estimate of potential additional revenue under the current voluntary program. Additional revenue could become available in the future if the United States government approves law changes to make state sales tax laws enforceable on interstate sales.

ASSUMPTION (continued)

The $13.7 million in additional collected would be due to the following state funds, and **Oversight** has also provided an estimate of additional revenues to local governments.

Entity	Tax Rate	
General Revenue Fund	3.000%	$9,738,000
School District Trust Fund	1.000%	$3,246,000
Conservation Commission Fund	0.125%	$324,600
Parks, and Soils Fund	0.100%	$405,800
Local Governments *	Average 3.800%	$12,334,900
Total	NA	$26,049,300

* The average rate for local sales and use tax is calculated based on tax revenues reported by the Department of Revenue for the year ended June 30, 2010.

For fiscal note purposes, Oversight will indicate additional revenue in excess of $100,000 per year beginning in FY 2015 for those state funds that receive sales tax revenues, and for local governments.

Sections 32.383, RSMo. - Tax Amnesty Program:

Although officials from the **Office of Administration - Division of Budget and Planning (BAP)** did not respond to our request for information, BAP officials assumed similar provisions in SCS for HB 55 (LR 0158-02) would not result in additional costs or savings to their organization.

BAP officials stated the proposal would create an amnesty from all accrued penalties and interest on unpaid taxes, if taxes are appropriately filed and paid during a period from August 1, 2013, to October 30, 2013. This proposal appears to be similar to the amnesty program in FY 2003.

ASSUMPTION (continued)

BAP officials assumed $75 million would be collected, including $50 million already identified from Department of Revenue (DOR) investigations completed or in process. BAP officials stated the $50 million is part of the revenue base when the consensus revenue estimates are determined for FY 2014 and future years. BAP assumes the balance of $25 million would be "new" revenues from previously unidentified sources.

BAP officials stated their collection estimates are based on income and sales tax liabilities and noted that a small amount of additional funds may be collected if other taxes administered by DOR, such as tobacco taxes, are included in the amnesty. BAP officials assume 84.2% of collections would be deposited in to the General Revenue Fund, based on the results of the amnesty program in FY 2003.

Further, BAP officials assume the proposed amnesty would persuade delinquent taxpayers to settle accounts in a more timely fashion than is typical. Based on data provided by DOR, BAP officials estimated 27% of liabilities collected are settled within nine months after being identified by DOR, with others taking 36 months or more to settle. BAP officials assume the amnesty program would bring all of these payments into the three-month amnesty window, which occurs about nine months after the end of tax year 2012. Thus, the amnesty would have a positive impact in FY 2014, and a negative impact on later years.

All funds other than revenues earmarked by the Constitution of Missouri would be deposited in the General Revenue Fund under the proposal. Some revenues normally earmarked for education would be deposited into the General Revenue Fund.

ASSUMPTION (continued)

BAP officials assume this proposal would increase General Revenue Fund receipts by $51.8 million in FY 2014, with impacts on Total State Revenue and later years as shown in the table below.

All funds	All years	FY 2014	FY 2015	Subsequent years
Amnesty collections	$75.0	$75.0	$0.0	$0.0
Normal collections	($50.0)	($13.6)	($22.8)	($13.6)
Net increase	$25.0	$61.4	($22.8)	($13.6)

General Revenue Fund	All years	FY 2014	FY 2015	Subsequent years
Amnesty collections	$63.2	$63.2	$0.0	$0.0
Normal collections	($42.1)	($11.4)	($19.2)	($11.5)
Net increase	$21.1	$51.8	($19.2)	($11.5)

Officials from the **Department of Revenue (DOR)** assume these provisions would create a tax amnesty program.

The program would authorize an amnesty from penalties, additions to tax, and interest on taxes administered by the Department of Revenue (DOR), with respect to delinquent taxes due and owing as of December 31, 2012, and paid in full from August 1, 2013, to October 31, 2013. The amnesty would not extend to taxpayers who are a party to a pending criminal investigation, or pending civil or criminal litigation in any court of the United States or this state for nonpayment, delinquency, or fraud in relation to any state tax imposed by this state.

Upon written application by the taxpayer using forms prescribed by the Director of Revenue, and upon compliance with the provisions of this section, DOR would waive any applicable penalty, addition to tax, or interest. Further, DOR would not initiate any civil or criminal prosecution for any taxpayer for which the amnesty was granted unless subsequent investigation or audit shows the taxpayer engaged in fraudulent or criminal conduct in applying for amnesty.

ASSUMPTION (continued)

Amnesty would only be granted to taxpayers who have applied for amnesty within the period indicated in the proposal, have filed a tax return for each taxable period for which amnesty is requested, have paid the entire balance due within sixty days of approval by DOR, and agree to comply with state tax laws for the next eight years from the date of the agreement.

Taxpayers granted amnesty under this section would be required in good faith to comply with the state's tax laws for eight years following the date of the amnesty agreement. If the taxpayer failed to comply with all of this state's tax laws at any time during the eight years following the date of the agreement, all penalties, additions to tax, and interest that were waived under the amnesty agreement would become due and owing immediately.

If a taxpayer elects to participate in the amnesty program, that election would constitute an express and absolute relinquishment of all administrative and judicial rights of appeal. No tax payment received under this section would be eligible for refund or credit, and the amnesty program would not prohibit the Department of Revenue from adjusting a filer's tax return as a result of any state or federal audit.

All tax payments received as a result of the amnesty program established in this section, other than revenues earmarked by the state constitution would be deposited in the General Revenue Fund.

The Department could create rules or administrative guidelines to implement the provisions of this section. This section would become effective on July 1, 2013, and would expire on December 31, 2016.

Fiscal impact

Overall, DOR officials assume a total of $75 million ($63 million General Revenue Fund) could be collected through the amnesty program, but a total of $50 million ($42 million General Revenue Fund) would have been previously identified by the department. DOR officials assume that an overwhelming majority of the $50 million, plus interest and penalties could be collected without amnesty.

DOR officials assume this proposal could have a net positive impact in FY 2014 of $51.8 million for the General Revenue Fund (GR) and $61.4 million in Total State Revenue.

ASSUMPTION (continued)

Oversight is not able to determine the reasonableness of the DOR revenue estimates since we do not have access to comparable information for similar programs, nor are we able to review any of the supporting documentation for those estimates since that information is confidential under the DOR interpretation of state law.

Administrative impact

DOR officials assume they would be required to create a new amnesty form and notices to issue to taxpayers that detail the amount owed and the amount eligible to be waived under the amnesty provisions. Further, DOR officials assume DOR and OA - ITSD (DOR) would need to make programming changes to all DOR tax systems to identify eligible periods for amnesty and to re - impose penalty and interest if the taxpayer is not in compliance for eight years.

DOR officials provided the following estimate of the cost to implement the amnesty program.

Based on 2011 estimates, there are approximately 490,000 known taxpayers with individual income, corporate income, employer withholding, and sales tax debts which could be eligible for amnesty.

Postage

* DOR officials would incur costs for postage, envelopes and printing of (490,000 x $.525 = $257,250).

Taxation Division Personnel

*	Overtime to review correspondence -	$102,000
*	Overtime to review errors on returns -	$74,460
*	Existing staff and temporary employees -	$147,900
*	Customer contacts -	$30,600
	Total	$354,960

ASSUMPTION (continued)

Advertising

The Department also recommended an advertising budget of at least $400,000. Advertising the amnesty should enhance overall participation in the program. Advertising should also help ensure that individuals and businesses not already in contact with the department about their tax liabilities participate in the program.

Contracted Services Option

In the alternative, the state could contract with a private vendor to administer the amnesty, like several other states which have achieved very good results. Contracting with a vendor would avoid the direct costs to the department as noted above. Vendor payment could be based on the percentage of the debts collected.

Oversight assumes the cost to operate the amnesty program with DOR staff would be less than the cost to manage the program using private vendors. In either case, DOR employees and managers would be required to identify the delinquent accounts and approve the waivers of penalties, interest, and additional tax.

Motor Vehicle Bureau

DOR officials noted there are currently 223,059 potential participants who have active delinquent motor vehicle and marine fees. Further, DOR officials assume the Department would send an amnesty eligibility notice to each of these taxpayers.

* DOR officials would incur costs for postage, envelopes and printing (223,059 x $.525 = $117,106).

* The bureau would need to develop procedures for the 2013 amnesty program (40 hours of overtime for Management Analyst Specialist I) at a cost of $1,206 in FY 2014.

* The DOR web site would need to be revised to include information about the amnesty program (10 hours of overtime for an Administrative Analyst I) at a cost of $325 in FY 2014.

ASSUMPTION (continued)

* Amnesty eligibility notices would need to be developed for motor vehicle sales tax, repossession accounts, and marine sales tax (120 hours of overtime for a Management Analyst Specialist I) at a cost of $3,618 in FY 14.

DOR officials assume the amnesty eligibility notice would allow for self certification that the applicant is not party to any pending criminal investigations nor to any pending civil or criminal litigation.

DOR officials also assume that implementation of the amnesty program could result in additional phone call inquiries to the Department, which could result in additional FTE being requested.

Finally, DOR officials assume only 10% of potential participants, or 22,305 taxpayers, would participate in the tax amnesty program. In addition, DOR officials assume the Department would allow a participant to take the signed amnesty eligibility notice to a local license office and make the amnesty payment. Title penalties would then be waived in the TRIPS system. Allowing license offices to accept amnesty payments would reduce the workload in the central office from amnesty payments, and could reduce potential FTE requirements.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of $103,602 based on 3,830 hours of programming time to make changes to DOR systems.

In summary, the DOR response included costs as follows:

Category	General Revenue Fund	Highway Fund
Salaries	$354,960	$5,150
Benefits	$180,124	$0
Letters, envelopes, and postage	$257,250	$117,106
Advertising	$400,000	$0
Total	$1,192,334	$122,256

ASSUMPTION (continued)

Oversight assumes the amnesty program would be implemented as part of a broader upgrade of DOR collections and customer service programs. Accordingly, Oversight will indicate unknown costs to the General Revenue Fund in excess of $100,000 in FY 2014 for the Department of Revenue to administer the amnesty program.

Oversight assumes in all cases, delinquent taxes collected would be significantly greater than the penalties, interest, and additions to tax waived, and will indicate additional revenues for the state General Revenue Fund in excess of $100,000, in addition to the recovery of program costs for FY 2014. Oversight will indicate unknown positive fiscal impact for the Conservation Commission Fund and the Parks and Soils and Water Fund for FY 2014.

Oversight also notes this proposal would require the Department of Revenue (DOR) to deposit all collections from the amnesty program, except for those which are earmarked by the Missouri Constitution, into the state General Revenue Fund. Therefore, taxes normally deposited to other (non-constitutional) state funds, such as the State School Moneys Fund, and for local governments may be deposited into the General Revenue Fund instead, if this proposal is enacted.

Finally, Oversight notes DOR has included costs to notify entities which remit motor fuel tax and other road fund revenues of the amnesty program, when the proposal requires all collections other than those for a constitutionally-created fund to be deposited into the General Revenue Fund. Oversight will not include any costs related to road funds in this fiscal note, and for fiscal note purposes will assume that no amnesty program collections would be deposited into road funds.

Sections 144.010, 144.030 and 144.605, RSMo. - Sales and Use Tax Nexus:

In response to similar provisions in SB 174 (LR 1031-01) of the current (2013) session, officials from the **Office of the Attorney General** assumed any potential costs arising from this proposal could be absorbed with existing resources.

Although officials from the **Office of Administration - Division of Budget and Planning (BAP)** did not respond to our request for information, BAP assumed similar provisions in HCS for SS#2 for SCS for SB Nos. 26, 11 & 31 (LR 0363-11) would not result in additional costs or savings to their organization.

ASSUMPTION (continued)

BAP officials assumed the proposal would expand the definition of "seller" and other related definitions under sales tax law, to include more out-of-state vendors doing business inside the state. BAP officials also noted that various studies have suggested Missouri is losing hundreds of millions of dollars in sales taxes on sales by out-of-state vendors, often via e-commerce. These changes would allow DOR to begin capturing taxes from some vendors that are currently unidentified. It would also make it easier to comply with the Streamlined Sales Tax Agreement.

BAP officials estimated the proposal would increase Total State Revenues by $10 million annually, of which $7 million would be deposited in the General Revenue Fund.

Officials from the **Department of Conservation (MDC)** assumed the proposal would have an unknown positive fiscal impact, but greater than $100,000 to their organization. MDC officials noted Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to the Missouri Constitution and this proposal would expand the definition of "engaging in business" and "maintaining a business" within the state. MDC officials also noted any increase in sales and use tax collected would increase revenue to the Conservation Sales Tax funds, and assume the Department of Revenue would be better able to estimate the fiscal impact for this proposal.

In response to similar provisions in SB 174 (LR 1031-01) of the current session (2013), officials from the **Department of Natural Resources (DNR)** assumed the proposal would modify existing provisions relating to Sales Tax and Compensating Use Tax. A presumption would be created that a vendor engages in business activities within this state if any person with a substantial nexus to Missouri performs certain activities in relation to the vendor within this state.

The proposal would void any agreement between the executive branch and any person that would exempt that person from the collection of sales and use tax, unless that agreement is approved by the General Assembly.

DNR officials noted that Parks and Soils Sales Tax Funds are derived from a one-tenth of one percent sales and use tax pursuant to the Missouri Constitution. DNR officials also noted that the proposal appears to expand who is required to collect the sales and use tax, potentially resulting in increased revenue for the Parks and Soils Sales Tax Funds.

DNR officials deferred to the Department of Revenue for an estimate of anticipated fiscal impact for the Parks and Soils Sales Tax Funds.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assumed the proposal would modify the current definition of "engaging in business" in this state for sales and use tax purposes. DOR officials did not indicate any administrative, fiscal, impact for these provisions in their response to this version of the proposed legislation.

Oversight will indicate revenues greater than $100,000 per year for the General Revenue Fund and for local governments, and unknown additional revenues for the other state funds which receive general sales tax revenues. Oversight assumes the law changes in this proposal would not have an impact on motor vehicle or motor fuel sales and will not include any fiscal impact for transportation funds.

Oversight notes these provisions would expire January 1, 2015, and assumes the provisions would be replaced upon the state's implementation of the Streamlined Sales Tax. Accordingly, Oversight will only include revenues and expenses for these provisions for FY 2014.

Section 143.221, RSMo. - Quarterly Payroll Tax Filing:

Although officials from the **Office of Administration - Division of Budget and Planning (BAP)** did not respond to our request for information for the Truly Agreed To and Finally Passed version , BAP officials assumed similar provisions in HB 105 (LR 0566-01) would not result in additional costs or savings to their organization.

BAP officials noted the proposal would increase the threshold for annual withholding filers from $20 to $100. Withholding taxes that would have otherwise been collected on a quarterly basis in April, July, and October would be delayed until January. This proposal would not directly impact General and Total State Revenues in the aggregate, but could have a cash flow impact across fiscal years.

Assuming the bill is effective Aug. 28, 2013, quarterly payments due in October, 2013, would instead be remitted in January 2014. This will have no cash effect overall for FY 2014, though the timing of payments would be different. However, quarterly payments due in April and July of 2014 would not arrive until January 2015. Therefore, revenue collections would be reduced in FY 2014, and collections in FY 2015 would be increased by similar amounts. Similar patterns would follow in subsequent years.

BAP officials also stated the Department of Revenue indicated approximately 6,500 businesses would be impacted by this proposal. BAP defers to DOR for estimated withholding amounts.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume this provisions would allow an employer to file on an annual basis if that employer had less than $100 in withholding tax in each of the four preceding quarters. The Director of Revenue could change the amount required for making an annual payment but the amount could not be less than $100.

Revenue Impact

In response to HB 105 (LR 0566-01), DOR officials assumed the proposal would not reduce Total State Revenue, but would delay the collection of withholding taxes. DOR officials also stated the proposal would impact approximately 6,500 businesses that could delay the remittance of withholding taxes which would have been paid in April, July, and October until January of the following year.

Administrative Impact

In response to HB 105 (LR 0566-01), DOR officials assumed the Department would need to make forms changes, and the Department and OA - ITSD (DOR) would need to make programming changes to various tax systems.

DOR officials did not include an estimate of cost to implement the proposal, and **Oversight** assumes this proposal could be implemented with existing DOR resources.

IT Impact

In response to HB 105 (LR 0566-01), DOR officials reported an estimate of the IT impact to implement this proposal of $1,082 based on an estimated 40 hours of programming to make changes to DOR systems.

Oversight assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight also assumes OA - ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOR) could request funding through the appropriation process.

ASSUMPTION (continued)

Oversight assumes this proposal would allow certain employers to delay filing and paying withholding taxes, which are currently due on a quarterly basis, until the following January 31. The amount of tax due and the overall amount of revenue for a tax year would not change; however, implementing this proposal could delay receipt of withholding taxes as explained below.

- Taxes withheld for the third calendar quarter ending September 30, 2013, are currently filed and paid by October 31; the proposal would include those taxes in an annual filing due January 31, 2014. Those taxes would be received in the same fiscal year (FY 2014) as currently required, although filing and payment of those funds would be delayed three months. For fiscal note purposes there would be no impact from that delay.

- Taxes withheld for the fourth calendar quarter ended December 31, 2013 would be paid January 31, 2014, as currently required.

- Taxes withheld for the first calendar quarter ending March 31, 2014, (FY 2014) are currently required to be filed and paid by April 30, 2014. The proposal would include those taxes in an annual filing due January 31, 2015, and they would be paid in January 2015 (FY 2015) instead of in April 2014. That delay would be permanent, as each year's first quarter withholding taxes would be paid the following state fiscal year.

- Based on the number of filers provided by the Department of Revenue, the amount of taxes delayed over the end of a state fiscal year could range from (6,500 filers x the current $20 threshold) = $130,000 to (6,500 filers x the new $100 threshold) = $650,000.

- Taxes withheld for the calendar quarters ending June 30, 2014, and September 30, 2014, would be paid in January 2015. Those taxes would also be paid in the same fiscal year as currently required but would be delayed six months and three months, respectively, as compared to current requirements.

ASSUMPTION (continued)

For fiscal note purposes, **Oversight** will assume this proposal would result in a revenue reduction greater than $100,000 for FY 2014. For FY 2015 and subsequent years, the previous year revenue received and the current year revenue deferred to the next year would be approximately equal and offsetting.

Oversight also notes this proposal would result in a permanent reduction in the number of payroll tax returns processed; the reduction would likely be somewhat less than three quarters' returns for the affected businesses or (3 x 6500) = 19,500 fewer returns.

In response to a similar proposal in the 2012 session (HCS for HB 1717, LR 5148-02) DOR officials assumed most of the small quarterly return filers would be electronic filers and the proposal would not likely lead to a reduction in the number of tax return errors or phone calls sufficient to allow a staff reduction.

Section 67.1545, RSMo. - Community Improvement District Tax:

This provision would exempt from community improvement district sales tax all sales of fuels used to power motor vehicles, aircraft, locomotives, or watercraft; electricity, piped natural or artificial gas, or other fuels delivered by the seller; and the retail sales or transfer of motor vehicles, aircraft, watercraft, modular homes, manufactured homes, or mobile homes.

Oversight assumes this provision would result in a minimal reduction in local government revenues, and will indicate an unknown revenue reduction for local governments.

Section 238.235, RSMo. - Transportation Development District Tax:

This provision would exempt from transportation development district sales tax all sales of fuels used to power motor vehicles, aircraft, locomotives, or watercraft; electricity, piped natural or artificial gas, or other fuels delivered by the seller; and the retail sales or transfer of motor vehicles, aircraft, watercraft, modular homes, manufactured homes, or mobile homes.

Oversight assumes this provision would result in a minimal reduction in local government revenues, and will indicate an unknown revenue reduction for local governments.

ASSUMPTION (continued)

Sections 143.011, 143.022, and 143.151, RSMo. - Personal Income Tax Changes:

Officials from the **Department of Revenue (DOR)** provided the following analysis of these provisions:

DOR officials assume, based on the combined change in rates and income tax brackets, the reduction in the maximum individual income tax rate to 5½% would reduce total state revenue by the following:

2014- $239.3 million
2015- $340 million
2016- $440.5 million
2017- $543.4 million
2018- $639.4 million

DOR officials also assume the reductions would impact FY 2014 revenues due to expected reductions in withholding and estimated tax payments.

The DOR estimates include the additional exemption of $2,000 for individuals with a Missouri Adjusted Gross Income of less than $20,000 and are based on exemptions for 813,542 individuals with Adjusted Gross Income of less than $20,000 on 2010 individual income tax returns.

The total amount that the state would receive from complying with the federal Marketplace Fairness Act is unknown. One study, from the University of Tennessee, estimated that in 2011 Missouri had $187.5 million in lost state and local revenue due to electronic commerce. The total impact from the passage of the federal Marketplace Fairness Act is unknown partially because it is unknown what sellers will be excluded from the state's remote collection authority. As the act passed the Senate, sellers making $1 million in sales nation-wide would be excluded, which could be as much as 25 to 30 percent of the amount the state loses from e-commerce.

ASSUMPTION (continued)

Business Income Tax Reduction

For calendar year 2011, individual income tax filers with a Missouri address reported $9.4 billion in "business" income on their federal 1040s. The Department included the total reported on Schedule C, Schedule E and Schedule F in the calculation. Some portion of the $9.4 billion reported could have been earned outside the state of Missouri and would not have been taxable in Missouri. In addition, the $9.4 billion estimate does not include any Missouri business income included on a federal return filed by an individual that did not have a Missouri address.

Based on $9.4 billion in business income, and at the tax rate of 6 percent, the Department estimates the following reduction in individual income tax:

2014- $56.4 million
2015- $112.8 million
2016- $169.2 million
2017- $225.6 million
2018- $282 million

DOR officials also assumed the reduction would impact FY 2014 revenues due to expected reductions in withholding and estimated tax payments.

Although officials from the **Office of Administration - Division of Budget and Planning (BAP)** did not respond to our request for information for the Truly Agreed To and Finally Passed version of thid bill, BAP officials assumed a previous version of this proposal would not result in any additional costs or savings to their organization.

Personal income tax

BAP officials noted the proposal would phase in a deduction of business income from individual income tax, increasing from 10% in the first year, to 50% in the final year. The deductions would occur if the Office of Administration (OA) determines revenues have increased. If the average payroll of a particular business exceeds 150% of the county average wage, the full 50% deduction shall immediately apply.

ASSUMPTION (continued)

Business Income would be defined as income greater than zero arising from transactions and activity in the regular course of the taxpayer's trade or business, and would include income from tangible property if the acquisition, management, and disposition of the property are integral parts of the taxpayer's regular trade or business operations.

BAP officials stated they did not have data that specifically identifies taxable "business income"; however, the IRS, in its Statistics of Income publication, provided the data for Missouri in the chart below from tax year 2010. BAP notes it is possible that Capital Gains or Dividend Income, as well as additional forms of income, could be included in business income in certain cases. BAP assumed that business income would exceed $10.5 billion. At the highest 6% marginal tax rate, the exclusion of 50% of business income could exceed $315 million, notwithstanding any inflationary growth.

IRS Statistics of Income Data

Adjusted Gross Income ($Millions)	$135,415
Business Income	$3,960
Partnership Income	$6,565
Sub - total	$10,525
Ordinary Dividends	$3,295
Qualified Dividend	$2,680
Net Capital Gain	$3,803
Sub - total	$9,777
Total	$20,302

Oversight notes the information provided by BAP indicates that business income from self-employed people and partnerships would equal $10,525 million, and the proposal would provide a maximum exclusion of 50% of that or ($10,525 million x 50%) = $5,262.50 million which would lead to a maximum personal income tax reduction of ($5,262,50 million x 6%) = $315.750 million.

ASSUMPTION (continued)

Further, Oversight notes that if dividends and net capital gains are to be excluded from taxable income as well as self-employment and partnership income, then 50% of an additional $9,777 million or ($9,977 million x 50%) = $4,988.50 million would be excluded and personal income tax revenue would be reduced by an additional ($4,988.50 million x 6%) = $299.31 million. The total revenue reduction would then be ($315.750 million + $299.31 million) = $615.06 million.

Oversight assumes the dividends and capital gains income would remain taxable on filers' personal income tax returns and will not include any impact for a revenue reduction related to the exclusion or deduction of that income.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** stated this proposal contains many changes to current statutes. It would reduce individual income tax rates, allow a "business income" subtraction for individual income tax filers, and create an additional individual income tax exemptions for filers with less than $20,000 in Missouri adjust gross income.

The proposal would gradually reduce individual income tax rates by modifying the personal income tax table. Beginning "on or before December 31, 2013 or on or before the first tax year after the tax revenues collected in the current year exceed the highest annual level of revenues collected in the prior three years by at least one hundred million dollars, whichever is latest" this bill would begin amending the personal income tax table. For every year in which total tax revenue collections exceed the previous three-year high by $100 million, the top personal income tax rate for the following year would be reduced by 0.05%. This rate reduction process would continue until the top tax rate equals 5.5%.

Beginning in 2014, the proposal would also allow an additional $1,000 personal and spouse income exemption for individuals earning less than $20,000 in Missouri adjusted gross income. Finally, the proposal would allow a "business income" subtraction from filers' Federal adjusted gross income when calculating their Missouri adjusted gross income; a 10% subtraction for 2014, a 20% subtraction for 2015, a 30% subtraction for 2016, a 40% subtraction for 2017 and a 50% subtraction for years after 2017.

ASSUMPTION (continued)

EPARC officials began their analysis by enumerating "business income" for the Missouri 1040 and assuming business income is equivalent to self-employment income. EPARC officials estimated self-employment income by dividing each filer's self-employment tax by the applicable tax rate. In this way, EPARC officials estimated aggregate positive "business income" at $7,229,010,965 for 312,226 Missouri filers.

EPARC officials stated their simulation process requires the graduated changes in the individual income rates to be analyzed in conjunction with the proposed additional exemption for filers with less than $20,000 in Missouri AGI and the "Business Income" Subtraction.

Because the "Business Income" deduction and the additional exemption for individual filers' with less than $20,000 in Missouri adjusted gross income **are not subject to the revenue contingency**, EPARC prepared an estimate of maximum impact assuming the income contingency was met. Accordingly, the EPARC estimate includes the earliest scheduled individual income tax rate reduction for 2014 and continues for ten consecutive years until the top tax rate equals 5.5% in 2023.

EPARC prepared a second set of simulations assuming passage of the "Marketplace Fairness Act," in which case the top Missouri personal income tax rate would be reduced by an additional 0.5% immediately. This proposal would then gradually reduce individual income tax rates in the same manner as above, by modifying the personal income tax table.

Oversight has summarized the EPARC simulation results for these personal income tax changes in the following table. Oversight notes EPARC has revised their estimates of individual and corporate income tax revenue reductions from their simulations of similar language in previous proposals.

ASSUMPTION (continued)

Personal Income Tax Simulations

Year	Revenue Reduction Without Marketplace Fairness Act	Revenue Reduction With Marketplace Fairness Act	Additional Revenue Reduction Due to Marketplace Fairness Act
Year 1	$102,296,000	$446,490,000	$344,194,000
Year 2	$164,715,000	$506,954,000	$342,329,000
Year 3	$225,514,000	$566,005,000	$340,491,000
Year 4	$284,483,000	$623,380,000	$338,897,000
Year 5	$341,487,000	$678,975,000	$337,488,000
Year 6	$374,901,000	$713,067,000	$338,166,000
Year 7	$408,262,000	$747,134,000	$338,872,000
Year 8	$441,571,000	$781,168,000	$339,597,000
Year 9	$474,837,000	$815,175,000	$340,338,000
Year 10	$508,053,000	$849,105,000	$341,052,000

Oversight will use the EPARC estimates of revenue reduction in this fiscal note. Oversight also notes the proposed language in 143.011.1.(1), RSMo, would continue the existing Missouri income tax rate schedule "...for all tax years beginning on or before the later of December 31, 2013, or the first calendar year after the amount of general revenue collected in the previous fiscal year exceeded the highest amount of general revenue collected in any of the three fiscal years prior to such year by at least one hundred million dollars...". Thus, the current rate schedule would apply to 2013 (FY 2014). Based on information from the Department of Revenue, the additional revenue requirement has been met and Oversight assumes the proposed rate schedule in Section 143.011.1(2) would be implemented for 2014 and the maximum individual income tax rate for 2014 (FY 2015) would be 5.95%.

ASSUMPTION (continued)

Oversight notes the additional rate reduction proposed for 2015 (FY 2016) in 143.011.1(3) would further reduce the maximum individual income tax rate to 5.9%; however, that rate reduction would be contingent on total tax collections at least one hundred million dollars greater than the highest total tax collections in the three previous years. Since that condition may or may not be met and since business income would be reduced by an additional ten percent (10%) regardless of tax collections, Oversight will reflect an impact of (more than $102,296,000) to ($164,715,000) for FY 2016; a range from the EPARC simulation results for the 5.95% maximum rate and the EPARC simulation results for the 5.90% maximum rate.

Oversight notes the proposed language in 143.011.2. would provide an additional one-half percent rate reduction "If the federal Marketplace Fairness Act of 2013 or similar legislation ... becomes federal law". The proposed language would require the Department of Revenue to adjust the rate tables in the proposal by rule. Oversight assumes, and the EPARC estimates reflect, the revenue reduction for the additional one-half percent rate reduction for the year of implementation and following years. If the proposal is implemented, and the federal act becomes law, and if the language in 143.011.2 is interpreted to require rate reductions for previous years, the resulting revenue reduction would be significantly greater.

Section 143.071, RSMo - Corporate Income Tax Rate Reduction:

Officials from the **Department of Revenue (DOR)** noted this provision would reduce the corporate tax rate from 6.25% to 3.25% over ten years. For every year in which total tax revenue collections exceed the previous three-year high by $100 million, the corporate income tax rate for the following year would be reduced by 0.3%. This rate reduction process would continue until the top tax rate equals 3.25%.

DOR officials also reported that for calendar year 2010, Missouri corporate taxpayers reported $5.6 billion in taxable income and $350 million in tax. Based on the estimated tax of $350 million, the Department estimates the following reduction in corporate income tax:

First year	$16.8 million
Second year	$33.5 million
Third year	$50.3 million
Fourth year	$67.0 million
Fifth year	$83.8 million

ASSUMPTION (continued)

Administrative impact

DOR officials did not provide separate information for these provisions; however, in response to a previous version of this proposal DOR officials assumed implementing the personal and corporate income tax provisions would require additional employees. Personal Tax would require two additional Temporary Tax Employees for key entry; one additional FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 additional errors; and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence. Collections & Tax Assistance (CATA) would require one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional contacts annually to the delinquent tax call center, plus CARES license and equipment; one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional contacts annually to the non-delinquent call center, plus CARES license and equipment; and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,800 additional contacts annually to the tax assistance offices plus CARES license and equipment for the Jefferson City tax assistance office. Corporate Tax would require one additional FTE Revenue Processing Technician I (Range 10, Step L) per 7,800 additional errors generated, plus CARES license and equipment; and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 2,600 additional pieces of correspondence generated, plus CARES license and equipment.

Oversight assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly $6,000 per employee.

Oversight assumes the income tax changes could be implemented with four additional staff and has included the related costs in this fiscal note. Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** stated the latest 2010 corporate income tax data indicated an aggregate corporate income tax liability of $383.905 million. EPARC officials also assumed the scheduled reduction in the corporate tax rates would take effect beginning in 2014 and continue for ten consecutive years until the top tax rate is reduced to 3.25%.

EPARC prepared a set of simulations assuming passage for the corporate income tax rate reductions in the proposal, and **Oversight** has summarized the EPARC simulation results for those corporate income tax changes in the following table.

Corporate Income Tax Simulations

Year	Rate	Revenue	Revenue Reduction
Baseline	6.25%	$383,905,000	$0
Year 1	5.95%	$365,477,000	$18,428,000
Year 2	5.65%	$347,049,000	$36,856,000
Year 3	5.35%	$328,622,000	$55,283,000
Year 4	5.05%	$310,194,000	$73,711,000
Year 5	4.75%	$291,767,000	$92,138,000
Year 6	4.45%	$273,340,000	$110,565,000
Year 7	4.15%	$254,912,000	$128,993,000
Year 8	3.85%	$236,485,000	$147,420,000
Year 9	3.55%	$218,057,000	$165,848,000
Year 10	3.25%	$199,630,000	$184,275,000

Oversight will use the EPARC estimates for fiscal note purposes.

ASSUMPTION (continued)

Sales Tax Exemptions

Oversight notes this proposal would make changes to the current set of sales and use tax exemptions. These sales and use tax exemptions are included in several places within Chapter 144, RSMo, and we understand part of the changes are due to the simplification and coordination of sales and use tax exemptions required to implement the Streamlined Sales and Use Tax Agreement (SSUTA) in the state. Other such changes do not appear to be related to the SSUTA Oversight has included them in this fiscal note as Unknown to (Unknown).

The changes to 144.030.2.19 in this proposal would replace the current broad sales tax exemption on retail sales for medical purposes with a more limited sales tax exemption for sales of kidney dialysis equipment and enteral feeding systems, most durable medical equipment, prosthetic devices, mobility enhancing equipment, and over-the-counter drugs as prescribed by a licensed health care practitioner. The primary difference between the current and proposed language is prescription drugs; the proposed language would appear to eliminate the current sales tax exemption for prescription drugs which would result in significant additional revenues for those state funds which receive general sales tax revenues and for local governments.

Oversight has not received responses from the Department of Revenue or the Office of Administration - Division of Budget and Planning regarding these sales tax exemptions. **Oversight** notes the most recent available Tax Expenditure Report, prepared in January 2009 for the state by the University of Missouri, Economic and Policy Analysis Research Center (EPARC) included an estimated cost for 2012 of $201 million for the prescription drug sales tax exemption.

For fiscal note purposes only, **Oversight** will include an estimate of the additional revenue from the change in the medical sales tax exemption. **Oversight** notes the Statistical Abstract of the United States reported prescription drug sales for the United States of $266.4 billion for 2010. Recent published population estimates indicate Missouri has 1.9% of the United States' population; therefore, Oversight assumes Missouri prescription drug sales could be estimated at (1.9% x $266,400,000,000) = $5,114,880,000. Sales tax revenues on that amount would be approximately as follows: (amounts are rounded)

ASSUMPTION (continued)

Fund or Entity	Rate	Sales Tax Revenue	
		Ten months	Annual
General Revenue	3%	$127,500,000	$153,000,000
School District Trust	1%	$42,500,000	$51,000,000
Conservation Commission	1/8%	$5,300,000	$6,400,000
Parks, and Soil and Waters	1/10%	$4,250,000	$5,100,000
State Sales Tax Increase	NA	$179,550,000	$215,500,000
Local governments (average rate) *	3.8%	$162,000,000	$194,400,000

* based on reported collections by the Department of Revenue

The $215,500,000 for a full year is similar to the Tax Expenditure Report estimate of $201,000,000.

Bill as a Whole:

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

SS:LR:OD

ASSUMPTION (continued)

The Oversight Subcommittee met on March 13, 2013, and voted to reflect additional revenue for the Streamlined Sales Tax program. The additional revenue would range from the combined revenue reduction for personal and corporate income which this proposal would require upon adoption of the Federal Marketplace Fairness Act or equivalent law (resulting in a zero net fiscal impact), to an amount $200 million greater than the contingent income tax revenue reduction.

FISCAL IMPACT - State Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE FUND			
Additional revenue - DOR Streamlined Sales Tax Section 32.070	$0	More than $100,000	More than $100,000
Additional revenue - DOR Streamlined sales tax Marketplace Fairness Act contingency Sections 32.070, etc.	$0	$0 or $344,194,000 to $544,194,000	$0 or $342,239,000 to $542,239,000
Additional revenue - DOR Tax Amnesty Section 32.383	More than $100,000	$0	$0
Additional revenue - DOR Sales and use tax nexus Sections 140.010, 144.030, and 144.605	More than $112,424	$0	$0
Additional revenue - DOR Sales tax on prescription drugs Section 144.030.19	$127,500,000	$153,000,000	$153,000,000
Revenue changes - DOR Other sales tax exemption changes	$0	Unknown to (Unknown)	Unknown to (Unknown)

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo)	FY 2015	FY 2016
Revenue reduction - DOR			
Delayed filing and payment of withholding taxes Section 143.221	(More than $100,000)	$0	$0
Cost DOR Streamlined Sales Tax	$0	(More than $100,000)	(More than $100,000)
Cost - DOR			
Sales and use tax nexus			
Sections 144.010, 144.030, and 144.605			
Salaries and wages	($57,840)	$0	$0
Benefits	($29,351)	$0	$0
Equipment and expense	($25,233)	$0	$0
Total costs - DOR	($112,424)	$0	$0
FTE change - DOR	3 FTE		
Cost - Department of Revenue			
Income tax changes			
Sections 143.011, 143.022, 153.151, and 143.071			
Salaries	$0	($46,735)	($109,383)
Benefits	$0	($7,800)	($15,756)
IT costs	$0	($27,649)	($55,506)
Equipment and expense	$0	($38,511)	($3,614)
Total cost - Department of Revenue	$0	($120,695)	($184,259)
FTE change - DOR	0	4 FTE	4 FTE
Revenue reduction - DOR			
Corporate tax rate reduction Section 143.071	$0	($18,428,000)	($18,428,000 to $36,856,000)

(Fully implemented revenue reduction in tenth program year would be $184,275,000.)

FISCAL IMPACT - State Government continued	FY 2014 (10 Mo)	FY 2015	FY 2016
Revenue reduction - DOR Personal income tax changes Section 143.011, 143.022, and 143.151	$0	($102,296,000)	(More than $102,296,000 to $164,715,000)
(Fully implemented revenue reduction in tenth program year would be $508,053,000.)			
Revenue reduction - DOR Personal income tax Marketplace Fairness Act contingency Section 143.011.2	$0	$0 or ($344,194,000)	$0 or ($342,239,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	**More than $127,600,000**	**$32,255,305 to Possibly $232,255,305 with passage of federal Marketplace Fairness Act**	**Less than $32,191,741 or ($48,655,259) to Possibly $232,191,741 or $151,344,741 with passage of federal Marketplace Fairness Act**

*If fully implemented, fiscal impact in the tenth step could range from ($539,128,000) to possibly (More than $339,128,000) with passage of the federal Marketplace Fairness Act.

Estimated FTE effect on General Revenue Fund	3 FTE	4 FTE	4 FTE

SS:LR:OD

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
CONSERVATION COMMISSION FUND			
Additional revenue - DOR Streamlined Sales Tax Section 32.070	$0	More than $100,000	More than $100,000
Additional revenue - DOR Tax Amnesty Section 32.383	Unknown	$0	$0
Additional revenue - DOR Sales and use tax nexus Sections 140.010, 144.030, and 144.605	Unknown	$0	$0
Additional revenue - DOR Sales tax on prescription drugs Section 144.030.19	$5,300,000	$6,400,000	$6,400,000
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**More than $5,300,000**	**More than $6,500,000**	**More than $6,500,000**

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
PARKS, AND SOIL AND WATER FUNDS			
Additional revenue - DOR Streamlined Sales Tax Section 32.070	$0	More than $100,000	More than $100,000
Additional revenue - DOR Tax Amnesty Section 32.383	Unknown	$0	$0
Additional revenue - DOR Sales and use tax nexus Sections 140.010, 144.030, and 144.605	Unknown	$0	$0
Additional revenue - DOR Sales tax on prescription drugs Section 144.030.19	$4,250,000	$5,100,000	$5,100,000
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	**More than $4,250,000**	**More than $5,200,000**	**More than $5,200,000**

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
SCHOOL DISTRICT TRUST FUND			
Additional revenue - DOR Streamlined Sales Tax Section 32.070	$0	More than $100,000	More than $100,000
Additional revenue - DOR Sales and use tax nexus Sections 140.010, 144.030, and 144.605	Unknown	$0	$0
Additional revenue - DOR Sales tax on prescription drugs Section 144.030.19	$42,500,000	$51,000,000	$51,000,000
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**More than $42,500,000**	**More than $51,100,000**	**More than $51,100,000**

FISCAL IMPACT - Local Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
LOCAL GOVERNMENTS			
Additional revenue - DOR Streamlined Sales Tax Section 32.070	$0	More than $100,000	More than $100,000
Additional revenue - DOR Sales tax on prescription drugs Section 144.030.19	$162,000,000	$194,400,000	$194,400,000
Additional revenue - DOR Sales and use tax nexus Sections 140.010, 144.030, and 144.605	Unknown	$0	$0
Revenue reduction - DOR Sales Tax exemption in CID's Section 67.1545	(Unknown)	(Unknown)	(Unknown)
Revenue reduction - DOR Sales Tax exemption in TDD's Section 238.235	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**More than $162,000,000 to (Unknown)**	**More than $194,500,000 to (Unknown)**	**More than $194,500,000 to (Unknown)**

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which are subject to income tax and would have administrative impact on businesses which collect sales taxes.

FISCAL DESCRIPTION

This proposal would modify provisions relating to taxation.

Personal Income Tax

The proposal would modify the individual income tax rate table. The maximum tax rate on personal income would be reduced by one-half of a percent over a period of years. Each reduction to the rate would be one-twentieth of a percent. No reduction could go into effect unless revenue in the previous fiscal year exceeded the amount of revenue in any of the three previous years by at least $100 million. Once the provision is fully phased in, the top rate of tax on individual income would be reduced to five and one-half percent (5.5%).

If the Congress passes and the President approves the Marketplace Fairness Act of 2013 or similar legislation, the maximum rate of tax on personal income would be reduced an additional one-half of a percent (.5%).

The proposal would create an individual income tax deduction for business income, and would phase it in over a five-year period. Taxpayers would be allowed to deduct ten percent of business income for 2014 and would be allowed a fifty percent deduction for all years after 2017. Shareholders of S corporations, and partners in partnerships would be allowed a proportional deduction based their share of ownership.

Currently, there is a personal exemption amount of $2,100 for personal income taxes. This proposal would increase the exemption amount by $1,000 for individuals with a Missouri adjusted gross income of less than $20,000.

Corporate Income Tax

The proposal would also reduce the tax rate on corporate income by 3% over a period of ten years. Each reduction to the rate would be three-tenths of a percent. No reduction wold go into effect unless revenue for the previous fiscal year exceeded the amount of revenue in any of the three preceding fiscal years by at least $100 million. Once the provision is fully phased in, the top rate of tax on corporate income would be reduced to three and one-quarter percent (3.25%).

FISCAL DESCRIPTION (continued)

Employer Income Tax Withholding

Currently, an employer is allowed to file an annual withholding tax return instead of four quarterly returns when the aggregate amount withheld is less than $20 in each of the four preceding quarters. This proposal would changes the amount to less than $100 in each of the four preceding quarters if the employer is not otherwise required to file a withholding return on a quarterly or monthly basis.

Streamlined Sales and Use Tax Agreement

This proposal would require the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement. Missouri would be represented by three delegates in meetings with other states regarding the Agreements. One delegate would be appointed by the Governor, one would be appointed by mutual agreement between the Speaker of the House of Representatives and the President Pro Tern of the Senate, and one would be the Director of the Department of Revenue. These delegates would report annually to the General Assembly regarding the agreement.

The proposal would require state and local sales taxes to have the same bases by requiring identical exemptions at the state and local level, and local governments would be prohibited from opting out of sales tax holidays. Uniform sourcing rules would be used to determine the tax rates applicable to certain transactions.

The Department of Revenue would be required to participate in an online registration system for sales tax collection. The Department would be required to provide electronic databases for taxing jurisdiction boundary changes, tax rates, and a taxability matrix detailing taxable property and services. Sellers would be relieved from liability if they fail to properly collect tax based upon information provided by the Department. Registration in the system could not be used as a factor to determine nexus with this state.

FISCAL DESCRIPTION (continued)

Amnesty would be available for sellers under certain circumstances following registration with the state. Monetary allowances would be provided to sellers and certified service providers for collecting and remitting state and local taxes equal to two percent of the taxes collected, but sellers and certified service providers would be prohibited from simultaneously receiving the monetary allowance and the two percent timely filed discount provided under current law. The proposal would also set out requirements for the seller and purchaser for tax exempt sales. For products that are bundled, with one item being taxable and the other nontaxable, the entire product would be subject to taxation unless the provider can properly identify the nontaxable portion. For products that are bundled items with different tax rates, the highest tax rate will be used for the entire product unless the provider can properly identify the lower taxed item.

The provisions relating to the Streamlined Sales and Use Tax Agreement would have an effective date of January 1, 2015.

Use Tax Nexus

This act would void any agreement between the executive branch and any person or business that exempts the person or business from collection of sales and use tax, unless the agreement is approved by both chambers of the General Assembly. The definition of "engages in business activities within this state" would be modified. The use of media to exploit Missouri's market would no longer make a vendor meet the definition. Being controlled by the same interests which control a seller engaged in a similar line of business in this state would also no longer meet the definition.

Under the Compensating Use Tax Law, a presumption would be created that a vendor engages in business activities in this state if any person with a substantial nexus to Missouri performs certain activities in relation to the vendor within this state. The presumption could be rebutted by showing that the person's activities are not significantly associated with the vendor's ability to maintain a market in Missouri.

A second presumption would be created that a vendor engages in business activities within this state if the vendor enters into an agreement with a resident of Missouri to refer customers to the vendor and the sales generated by the agreement exceed $10,000 in the preceding twelve months. This presumption could be rebutted by showing that the Missouri resident did not engage in activity within Missouri that was significantly associated with the vendor's market in Missouri in the preceding twelve months.

FISCAL DESCRIPTION (continued)

The definition of "maintains a place of business in this state" would be modified to remove common carriers from its provisions. Currently, there is an exemption from the definition of vendor for vendors whose gross receipts are less than certain amounts, do not maintain a place of business in Missouri, and have no selling agents in Missouri. This proposal would remove the exceptions.

The provisions regarding use tax nexus would expire January 1, 2015.

Tax Amnesty

This proposal would grant amnesty for penalties, additions to tax, and interest accrued on a state tax liability due but unpaid as of December 31, 2012. Persons that are a party to a criminal investigation or civil or criminal litigation relating to unpaid taxes would be ineligible for the amnesty. Persons seeking amnesty would be required to apply between August 1, 2013, and October 31, 2013, and pay the balance of taxes due within 60 days of the application being accepted. If a taxpayer granted amnesty failed to comply in good faith with all state tax laws for the next eight years, they would be required to pay the amounts that were waived under the act. Finally, taxpayers granted amnesty could not participate in future amnesty programs for the same tax.

The proposal includes an emergency clause for the tax amnesty provisions.

Community and Transportation Development District Sales Tax

The proposal would provide an exemption from Community Development District and Transportation Development District taxes for retail sales of fuel and other forms of energy, motor vehicles, planes, boats, and manufactured, modular, or mobile homes.

Sales and Use Tax Exemptions

The proposal would authorize a state and local sales and use tax exemption for kidney dialysis and enteral feeding equipment, for most durable medical equipemnt, and for all sales of over-the-counter drugs as prescribed by a licensed health care practitioner.

The proposal would, apparently, repeal the existing tax exemption for prescription medications.

FISCAL DESCRIPTION (continued)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
    Division of Budget and Planning
Department of Conservation
Department of Revenue
University of Missouri
    Economic Policy and Analysis Research Center
St. Louis County
City of Kansas City

Ross Strope
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SS:LR:OD